

Message Text

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ORIGIN EB-11

INFO OCT-01 ARA-16 ISO-00 TRSE-00 SSO-00 NSCE-00 INRE-00

AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00

FPC-01 H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 FEA-02

PA-04 PRS-01 USIE-00 DRC-01 /150 R

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TREASURY - MR. MC CULLOUGH (SUBS)

ARA/EP - MR PRINGLE

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FM SECSTATE WASHDC

TO AMEMBASSY QUITO IMMEDIATE

C O N F I D E N T I A L STATE 145988

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: DEMARCHE OPPOSING HIGH OIL PRICES

REF: QUITO 4377

FOR THE AMBASSADOR

1. IT HAS BEEN AND REMAINS OUR CONVICTION THAT WORLD OIL PRICES ARE TOO HIGH. THEY ARE STRAINING THE WORLD ECONOMY AND RETARDING INTERNATIONAL ECONOMIC GROWTH. THE MAINTENANCE OF CURRENT HIGH PRICE LEVELS IS CAUSING SERIOUS AND POSSIBLY LASTING DISLOCATIONS IN THE GLOBAL ECONOMY AND COULD LEAD TO THE VIRTUAL ECONOMIC COLLAPSE OF SOME LDCS. ON THE BASIS OF CURRENT MARKET CONDITIONS, OIL PRICES SHOULD BE FALLING RATHER THAN RISING.

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2. WE REGRET THE APPARENT ATTITUDE OF MOST PRODUCERS THAT

THEY CAN CONTINUE TO RAISE PRICES WITH IMPUNITY. WE REGARD ECUADOR'S RECENTLY ANNOUNCED INCREASE AS UNFORTUNATE AND UNWARRANTED. OUR OPPOSITION IS TO ANY PRICE INCREASE, NOT JUST TO THAT PORTION WHICH EXCEEDS THE RECENT OPEC GUIDELINES ESTABLISHED BY THE PRODUCERS AT QUITO.

3. YOU ARE INSTRUCTED TO SEEK AN EARLY OPPORTUNITY WITH THE APPROPRIATE SENIOR ECUADOREAN OFFICIAL TO EMPHASIZE OUR OPPOSITION TO HIGH OIL PRICES IN GENERAL AND TO THE RECENTLY ANNOUNCED INCREASE IN PARTICULAR. FYI - SIMILAR

DEMARCHES WILL ALSO BE MADE TO OTHER OPEC GOVERNMENTS TO SEEK AVOIDANCE OF NEW PRICE INCREASES. END FYI

4. IN MAKING YOUR REPRESENTATION, YOU SHOULD DRAW ON THE FOLLOWING TALKING POINTS:

--I HAVE BEEN INSTRUCTED TO BRING TO THE ATTENTION OF THE GOVERNMENT OF ECUADOR MY GOVERNMENT'S DEEP CONCERN WITH OIL PRICE DEVELOPMENTS.

--ON JULY 1, YOUR GOVERNMENT RAISED THE INCOME TAX ON PETROLEUM COMPANIES FROM 40 TO 45 PERCENT. WE ARE DISTURBED BY THIS ANNOUNCED INCREASE. WE BELIEVE THE CONTINUED UPWARD TREND FOR OIL PRICES IS BOTH UNFORTUNATE AND UNWARRANTED.

--THE UNITED STATES STRONGLY BELIEVES THAT WORLD OIL PRICES ARE ALREADY CRITICALLY HIGH. AS A RESULT, THE WORLD ECONOMY IS DANGEROUSLY STRAINED AND WORLD DEVELOPMENT IS BEING RETARDED. THE NEW INCREASE JUST ANNOUNCED BY THE GOE WILL COMPOUND THE DIFFICULTIES CONSUMING COUNTRIES FACE IN TRYING TO ADJUST TO THE ENORMOUS AND ABRUPT INCREASES IN PRICE OVER

THE PAST EIGHTEEN MONTHS. ON THE BASIS OF CURRENT MARKET CONDITIONS, OIL PRICES SHOULD BE FALLING RATHER THAN RISING.

--THE DIRECT AND INDIRECT BURDEN OF HIGH OIL PRICES
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ON THE US CONSUMER IS A HEAVY ONE. THE PLIGHT OF DEVELOPING CONSUMER COUNTRIES IS EVEN MORE PRESSING. THEIR INCREASED EXPENDITURES FOR ENERGY ARE SURPASSING THEIR TOTAL AID RECEIPTS AND COULD LEAD IN SOME CASES TO VIRTUAL ECONOMIC COLLAPSE.

--WE BELIEVE CURRENT PRICE LEVELS ARE CONTRARY TO THE LONG-TERM INTERESTS OF ECUADOR AND OTHER PRODUCERS.

IN OUR INTERDEPENDENT WORLD, THE ECONOMIC FUTURES
OF ALL COUNTRIES ARE CLOSELY RELATED. ALL NATIONS,
PRODUCERS AND CONSUMERS, WILL SUFFER IN A WORLD THAT
IS CHARACTERIZED BY FALTERING AND FAILING ECONOMIES.

--THE GOVERNMENT OF ECUADOR SHOULD BE AWARE OF THE
NEGATIVE IMPACT ITS ATTITUDE ON PRICE IS HAVING ON
ITS IMAGE IN THE UNITED STATES. WE APPRECIATED THAT
ECUADOR DID NOT REDUCE ITS SUPPLIES OF OIL TO US
DURING THE RECENT ARAB EMBARGO. BUT WE STRONGLY
OPPOSE HIGH OIL PRICES. IT IS OUR FIRM CONVICTION

THAT HIGH PRICES ARE DETRIMENTAL TO ALL COUNTRIES
AND WE HOPE THAT THE GOE WILL SEE FIT TO RECONSIDER
ITS VIEWS ON PRICES IN GENERAL AND THIS MOST RECENT
DECISION IN PARTICULAR.

--WE WOULD HOPE THAT OUR TWO GOVERNMENTS COULD WORK
TOGETHER TO ENSURE MEANINGFUL COOPERATION BETWEEN
PRODUCING AND CONSUMING NATIONS AND THEREBY CONTRI-
BUTE TO AN INTERNATIONAL ECONOMIC SYSTEM THAT PRO-
VIDES FOR CONTINUED ECONOMIC GROWTH AT SUSTAINABLE
PRICE LEVELS.

5. THE GOE OFFICIAL, WITH WHOM YOU SPEAK, WILL PROBABLY
INSIST THAT THE TAX INCREASE WAS DESIGNED TO REDUCE COM-
PANY PROFITS AND NOT INCREASE THE COST OF OIL TO THE
ULTIMATE CONSUMER. IN FACT, THE TAX RISE WILL INCREASE
OIL PRICES. SHOULD THIS ISSUE ARISE, YOU MAY WISH TO
DRAW FROM STATE 117824, WHICH DISCUSSES THE RELATIONSHIP
OF TAXES TO COMPANY PROFITS. THIS CABLE IS BEING
REPEATED FOR YOUR INFORMATION.

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6. PLEASE REPORT REACTION OF GOE TO YOUR DEMARCHE. SISCO

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Message Attributes

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